

112 FERC 61,317
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Cottonwood Energy Company, L.P.

Docket No. ER05-483-003

ORDER GRANTING CLARIFICATION

(Issued September 20, 2005)

1. Entergy Services, Inc. seeks clarification and rehearing of an order issued in this proceeding on June 8, 2005 (June 8 Order).¹ As discussed below, we will grant clarification.

Background

2. On January 24, 2005, Cottonwood filed a proposed rate schedule specifying its revenue requirement for providing cost-based Reactive Support and Voltage Control from Generation Sources Service (reactive power). Cottonwood stated that, because it was a non-utility generator not generally subject to traditional rate regulation, and given what it termed as the relatively small revenue requirement proposed in its filing, it had sought to avoid any potential issues regarding return on equity (ROE) in the instant filing, and had incorporated in its annual carrying cost a conservative ROE based on a proxy of a Commission-accepted percentage reflected in a filing on behalf of Entergy Corporation, including Entergy Gulf States, Inc., the transmission owner with which Cottonwood's facility is connected. Cottonwood also stated that it had performed its cost calculations in accordance with the ratemaking methodology prescribed by the Commission in *American Electric Power Service Corporation*.²

¹ *Cottonwood Energy Company, LP*, 111 FERC ¶ 61,369 (2005).

² 88 FERC ¶ 61,141 (1999) (*AEP*).

3. In an order issued March 23, 2005 (March 23 Order),³ the Commission accepted Cottonwood's proposed rate schedule for filing, suspended it for a nominal period, to become effective February 1, 2005, subject to refund, and set it for hearing and settlement judge procedures. We noted a number of issues that should be considered, including whether Cottonwood's proposed revenue requirement is excessive given the amount of reactive power produced and the costs Cottonwood incurs to produce it, and whether the methodology used to develop the revenue requirement is appropriate given the type of facility at issue.

4. Cottonwood requested rehearing of the March 23 Order, contending that the Commission erred in setting for hearing the issue of whether Cottonwood's \$3.4 million annual revenue requirement for reactive power is excessive given the amount of reactive power produced and the costs Cottonwood incurs to produce it. It maintained that the Commission had strayed from its requirement that a generator not satisfy a "needs" test for reactive power. Cottonwood also argued that the Commission wrongly included within the scope of the hearing a review of the *AEP* methodology.

5. The Commission denied Cottonwood's request for rehearing with respect to the issue of whether the Commission had erred in setting for hearing the reasonableness of Cottonwood's proposed \$3.4 million annual revenue requirement for reactive power.⁴ However, the Commission granted rehearing with regard to the *AEP* methodology, stating that it did not intend to reconsider the appropriateness of that methodology in this proceeding.⁵

Request for Clarification and Rehearing

6. Entergy first requests that the Commission clarify paragraph 6 of the June 8 Order. In particular, Entergy requests clarification that the "need" issue is separate and distinct from all the other issues set for hearing in the March 23 Order, including the issue of the amount of reactive power produced by Cottonwood and the costs Cottonwood incurs to

³*Cottonwood Energy Company, L.P.*, 110 FERC ¶ 61,303 (2005).

⁴ June 8 Order, 111 FERC ¶ 61,369 at P 6.

⁵ *Id.* at P 7.

produce such reactive power. Entergy urges the Commission to confirm that the hearing should be open to exploring all issues entailed in determining whether Cottonwood's rates are excessive.

7. Entergy also requests clarification of paragraph 7 of the June 8 Order. It observes that, in footnote 3 of the March 23 Order, the Commission set for hearing the issue of whether any compensation Cottonwood is to receive for reactive power services should instead be pursuant to section 4.7 of the Interconnection Agreement. It also points out that, in the June 8 Order, the Commission granted rehearing with regard to the *AEP* methodology. Entergy contends that this ruling could be read to prejudge whether any compensation Cottonwood is to receive for reactive power should be pursuant to section 4.7 of the Interconnection Agreement. Entergy requests clarification that it is not precluded from developing a record in this proceeding on the issue of whether compensation for any reactive power provided by Cottonwood is governed by the rate methodology established in the Interconnection Agreement.

Discussion

8. In the June 8 Order, the Commission rejected Cottonwood's contention that the Commission had imposed a "needs" test with regard to reactive power. In so doing, the Commission did nothing to relieve Cottonwood of its obligation to support its proposed rate for reactive power. Consequently, the Commission clarifies that the hearing may explore all issues relevant to whether Cottonwood's rates are excessive. But there is no "needs" test for a generator to be an eligible supplier of reactive power.⁶

9. When the Commission granted rehearing in the June 8 Order with regard to the appropriateness of the *AEP* methodology, it was rectifying a mistake made in the March 23 Order, where it previously had included among the issues to be addressed at the hearing "whether the methodology used to develop the revenue requirement is appropriate given the type of facility at issue." The Commission stated that issues involving the *AEP* methodology are better addressed in a more generic proceeding and not in case-by-case litigation.⁷ In making that determination, the Commission did not

⁶ Compare June 8 Order, 111 FERC ¶ 61,369 at P 4 with *Rolling Hills Generating, LLC*, 109 FERC ¶ 61,069 at P 13 (2004).

⁷ Compare June 8 Order, 111 FERC ¶ 61,369 at P 7 with *FPL Energy Marcus Hook, L.P.*, 111 FERC ¶ 61,168 at P 11 (2005).

intend to nor did it in fact prejudice any other issue. Consequently, the Commission clarifies that parties are not precluded from developing a record on the issue of how Cottonwood is to be compensated for providing reactive power, including whether the compensation should be under the proposed rate schedule or section 4.7 of the Interconnection Agreement.

The Commission orders:

Clarification is hereby granted, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.